Transnational Tobacco Company Influence on Tax Policy During Privatization of a State Monopoly: British American Tobacco and Uzbekistan

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Objectives. The International Monetary Fund encourages privatization of state-owned tobacco industries. Privatization tends to lower cigarette prices, which encourages consumption. This could be countered with effective tax policies. We explored how investment by British American Tobacco (BAT) influenced tax policy in Uzbekistan during privatization there.

Methods. We obtained internal documents from BAT and analyzed them using a hermeneutic process to create a chronology of events.

Results. BAT thoroughly redesigned the tobacco taxation system in Uzbekistan. It secured (1) a reduction of approximately 50% in the excise tax on cigarettes, (2) an excise system to benefit its brands and disadvantage those of its competitors (particularly Philip Morris), and (3) a tax stamp system from which it hoped to be exempted, because this would likely facilitate its established practice of cigarette smuggling and further its competitive advantage..

Conclusions. Privatization can endanger effective tobacco excise policies. The International Monetary Fund should review its approach to privatization and differentiate the privatization of an industry whose product kills from privatization of other industries. (*Am J Public Health.* 2007;97:2001–2009. doi:10.2105/AJPH.2005.078378)

In a deal announced in May 1994 and finalized in late 1995, Uzbekistan's state-owned tobacco monopoly was privatized. British American Tobacco (BAT) established a joint venture with the government, and its initial 51% shareholding increased with subsequent investments to reach 97% by 1998.[1] The joint venture included the whole existing national tobacco industry, which consisted of the Tashkent tobacco factory and 2 fermentation plants in Urgut and Samarkand.[1,2] The state-owned monopoly was thus replaced with a private one and BAT became the largest investor in Uzbekistan to date;[3] it contributed an estimated one third of all foreign direct investment received by Uzbekistan from 1992 to the end of 2000.[1]

The International Monetary Fund encourages privatization of state-owned industries, including tobacco industries, to help address macroeconomic problems and promote economic growth; however, it fails to consider the unique nature of an industry whose product kills.[4,5] Yet, as the public health community has attempted to highlight, tobacco industry privatization will encourage competition in a market, which tends to lower prices and increase marketing, both of which fuel cigarette consumption.[4–6] In the former Soviet Union, 10 of the region's 15 countries saw state-owned tobacco industries privatized during the 1990s along with heavy investment by transnational tobacco companies (TTCs),[1] and the evidence suggests that privatization increases consumption.[6]

Bans on cigarette advertising have the potential to contain the increase in marketing and cigarette taxation provides a means to control or prevent the price reductions that are predicted to occur with privatization. It has been shown that increasing the price of tobacco products is the single most effective means of reducing their consumption.[7] A 10% increase in cigarette prices would reduce consumption by 8% in low- and middle-income countries.[8] Accompanying increases in government revenues would, according to the World Bank, bring "unprecedented health benefits without harming economies."[9]

Hence, it is essential to understand whether privatization and TTC investment jeopardize effective tobacco control and tax policies. Such an understanding is particularly critical given that the International Monetary Fund pressure for tobacco industry privatization continues[4] in the remaining state monopolies, which account for some 40% of the world's cigarette consumption.[10]

We have already established how, as a condition of its investment in Uzbekistan, BAT eroded effective tobacco control legislation, including bans on advertising and smoking in public places.[11] Here, we detail how BAT influenced tax policy. Combined, these are arguably the most egregious examples to date of tobacco industry influence over public policy.

METHODS

Our study was based on documents obtained by searching BAT's archive in Guildford, UK, between July 2000 and 2002. The legal settlements that led to the public release of BAT's documents, the creation of the company's Guildford archive, and the difficulties of working in this archive previously have been described.[12–14] As part of a wider search for documents relating to the former Soviet Union detailed elsewhere,[13] over 35 terms were included specifically for Uzbekistan. An iterative approach to searching, informed by a previous search of tobacco industry journals and early document findings, was taken. Initial broad search terms such as "Central Asia," "CAR" (central Asian republics), "Uzbek*," were later narrowed to include the names of key individuals, places, projects, and factories. Over 1800 files were ordered as a result of searches on the former

Soviet Union and took up to 2 years to be delivered by BAT.

We used an approach to company document analysis described by Forster and complemented it by using archival techniques recommended by Hill.[15,16] Once obtained, individual documents were indexed in a project database designed specifically for analyzing tobacco industry documents. A total of 302 documents were coded as relevant to Uzbekistan. The database then was used to extract documents that focused on "pricing and taxation" and "policy influence" in Uzbekistan and to sort them by date to construct a chronology of events. To ensure that all relevant documents were retrieved, we did a secondary search of all 302 indexed documents on Uzbekistan.

To contextualize and triangulate findings, documents on taxation in other countries of the former Soviet Union were retrieved from the project database. Documents that detailed broader company policies on taxation were subsequently identified using the online BAT Documents Archive, which was established in 2004,[12] using combinations of search terms including "taxation," "excise," and "company plan." Additional information was obtained from a background literature review, a hand search of tobacco industry journals dating from the start of 1990 to the end of 2000, and an internet search for relevant articles in regional English-language newspapers.

Obtaining in-country information was seriously limited by the deterioration of the political situation in Uzbekistan during the course of our work, most notably worsening human rights abuses under Uzbek President Islam Karimov's regime, which has been in power since independence in 1991.[17,18] We nevertheless interviewed a number of individuals who substantiated our findings. For their own safety, these people cannot be named, because it is known that individuals active in tobacco control in Uzbekistan have been subject to harassment and torture.

RESULTS

BAT's efforts to influence tax policy in Uzbekistan occurred within the context of a broader commitment in the 1993–1997 Company Plan to "actively seek to influence governments with regard to the level and structure of tobacco taxation in order to promote market growth and to secure competitive advantage."[19] A subsequent paper outlining group policy on indirect taxation exhorts the pursuit of "(e)very opportunity to reduce the level of taxation"[20] while emphasizing the development of contacts with politicians and officials:

> Government officials responsible for tobacco excise and VAT [value added tax] planning and control . . . should be identified and sufficient regular contact maintained while Ministerial (Government and Opposition) contacts should also be maintained to ensure that the Company is well placed to have its views taken into consideration. . . . Such relations should establish BAT as the Company to which Government will turn when they need advice and assistance upon any aspect of excise taxation. . . .[20]

Our previous work suggests that this approach was followed in the former Soviet Union, and BAT established a team specifically to advise governments in new markets on excise regimes.[21]

Between 1994 and 1995, at the time BAT was negotiating its investment, only about one fifth of the estimated 14 to 22 billion cigarettes consumed in Uzbekistan were domestically manufactured.[22,23] The government, therefore, actively encouraged cigarette imports to compensate for the inadequate domestic production:[24] no import license was required[25] and no import duties or excise taxes were levied on imports.[24,26,27] Instead, cigarettes produced in one country within the Commonwealth of Independent States (of which Uzbekistan was a member) were supposed to be taxed before being free to move to another country.[26] By contrast, excise taxation[22] was applied to domestically produced cigarettes according to cigarette class; lower quality unfiltered cigarettes enjoyed a tax advantage.[27–30]

Despite the tax advantages given to imports, documents suggest that BAT was complicit in smuggling cigarettes to Uzbekistan.[31–33] By 1992, BAT had established imports to Uzbekistan.[31] Later statements suggest these imports were largely smuggled.[32,33] For example, in 1994 Ulrich Herter, the managing director of tobacco at BAT Industries, stated that business in central Asia and the Caucasus is "transit business,"[32] a BAT euphemism for smuggling.[34] Similarly, as BAT's deal appeared imminent, Simon Smith, a BAT accountant, queried, "[w]ould it be possible to negotiate the legal import and promotion of BAT brands now that [BAT] will manufacture in future? Do we want to do this?"[33] suggesting that BAT had previously been reliant on illegal imports.

BAT's approach in Uzbekistan was, in this respect, similar to that followed through the rest of the region; smuggling was one of its key market entry strategies.[13] Smuggling enabled BAT to establish demand for its brands before it had begun domestic manufacturing and to ensure that they were available cheaply, thereby stimulating consumption. The presence of smuggled cigarettes in the market would also be used to argue against the imposition of high taxation rates, based on the argument that high rates would encourage smuggling. TTCs have used this spurious argument elsewhere to persuade governments to reduce taxation rates.[35] However, as BAT's practices in Uzbekistan make clear, smuggling was taking place despite the very low taxes on imports and thus, as elsewhere, was not driven by taxation rates.[36]

BAT projected that between 1993 and 1999 annual cigarette consumption would increase dramatically from 22 to 32 billion units (a 45% increase), with BAT obtaining an 80% market share based on annual sales exceeding 25 billion.[11,23] To achieve this BAT planned to increase capacity at the Tashkent tobacco factory from 4 to 10 billion units by 1996 and to construct a new factory where capacity, variously estimated at between 15 and 30 billion units, would be reached by 1998.[23,37] Once production capacity at the Tashkent factory was reached, BAT planned to close the factory, which was limited by its small site size and location in a prime residential area next to a maternity hospital.[23,37] During this period, BAT cigarettes would be available largely as imports. Competitive threats to BAT's predominance in Uzbekistan, therefore, would emerge from 2 areas: first, from the widespread availability of other smuggled and cheap cigarette imports,[37,38] and second, from Philip Morris International. In 1993, Philip Morris had bought the Almaty Tobacco Factory in neighboring Kazakhstan[1,39] and its Marlboro and L&M brands were the main competitors to BAT's brands in the more

expensive price categories.[37] The formation of a free trade area between Kazakhstan, Kyrgyzstan, and Uzbekistan[2,40] escalated this competitive threat.

British American Tobacco's Taxation Strategy for Uzbekistan

BAT's approach to tobacco taxation in Uzbekistan was shaped by this competitive environment. Its strategy, which emerged somewhat erratically over time, included five main goals: (1) to introduce protective import taxes, (2) to equalize excise on imports and domestic production,[38,41,42] (3) to reduce excise rates,[43] (4) to develop tax reforms to benefit BAT's brands,[30,42] and (5) to ensure the proper control and collection of taxes, particularly on competitors' imports.[41,42,44] Each is considered in turn.

Introducing Protective Import Taxes

BAT noted in June 1993 that the financial attractiveness of its proposed investment was "highly sensitive to the tax structure, particularly to the excise regime"[45] and indicated that excise and import duty reform were "[e]ssential elements in any BAT investment."

The company's initial priority was to secure the imposition of import duties, which in BAT's words, was an "agreement to protect the domestic tobacco products by use of punitive import duties,"[46] although excise reforms were also desired.[47] The Uzbeks appeared to quickly acquiesce.[48] BAT's chief executives committee noted on November 29, 1993, "[t]he Uzbek government . . . has indicated that it is willing to undertake reforms, including lower excise rates and the introduction of appropriate import duties."[41] Despite this promising start and BAT's ultimate success in influencing tax policy, the process was to prove more tortuous for BAT than initially anticipated.

In December 1993, Sir Patrick Sheehy, chairman of BAT, promised Uzbek President Islam Karimov "a team of excise experts to advise and assist the Uzbek authorities."[49] BAT's experts, David Bishop and Chris Dufty, first visited in January 1994.[50] After a series of meetings during this[27] and other visits[29,51] BAT established links and was determined to work closely with the Taxes and Finance Ministries. Key contacts were Deputy Minister of Tax Inspection Abdulla Mamasaatovich[29] and Deputy Finance Minister Abdoulla Abdoukadirov, who were charged with indirect tax policy.[27,51] One document indicates that although "interested in collecting revenue" these officials were "not very sure about how to do it."[27] Others indicate that they were confused about[52] and lacked expertise in tax policy, as a summary of one meeting outlines:

> Dr Abdoukadirov continued to be open and friendly, was appreciative of the information provided by BAT on international indirect tax treatments and very keen that BAT should work with him and his officials on the drafting of indirect tax legislation and the setting up of collection and control procedures, which he admits they have neither the personnel or expertise to do.[51]

Such a lack of experience would present BAT with opportunities both to influence policy and to educate the ministers as to its own version of excise policy.[53]

On the import tax issue, Bishop and Dufty noted during their January 1994 visit that Abdoukadirov recognized the importance of levying import duties to raise revenue and protect the local industry: a 50% import duty on cars had already been introduced to accompany joint ventures with Mercedes and Daewoo.[27] Abdoukadirov volunteered similar protection to the cigarette industry.[27] He also "confirmed his complete willingness to work with BAT on an overhaul of the tax system should any joint venture go ahead."[27] William Wells, of Schroders, BAT's advisors, recorded that "the excise authorities appear very receptive to excise proposals . . . the impression was that BAT could have almost any exemption it wanted."[54]

Despite this apparent progress, at a meeting with the Ministry of Finance on February 23, 1994, BAT learned that previous promises of "full cooperation with BAT . . . in order to introduce a suitable indirect tax structure" would not be realized.[51] Instead, the Uzbek government had introduced a number of changes contrary to BAT's proposals.[51] Most notable was a presidential decree banning import duties which, driven by the country's need for imports, had been introduced in February 1994[55,56] seemingly without BAT's knowledge.[51] BAT was also disappointed to learn that a decree issued March 1, 1994, would increase cigarette excise rates.[26,52] The new rates represented an approximate 2.25-fold rise from previous levels for all four cigarette categories (Table 1); class 1 cigarettes (the most expensive) were now to be taxed at 90%.[26]

Formal negotiations on a share purchase agreement commenced against this background. BAT ensured that the issue of excise reform was prominent and sought Ministry of Finance representation on the lead negotiation team claiming that "an important part of BAT's conditions for investment relate to fiscal and excise matters."[57] It is also likely that BAT's developing relationship with Abdoukadirov

TABLE 1—Ad Valorem Cigarette Excise Tax Rates, by Cigarette Class: Uzbekistan, 1993–1995

Cigarette Class and Brand Examples	Excise Tax Rate, %		
	1993–Early 1994	March 1994	February 1995[a,b]
Class 1 (e.g., Uzbekistan, filter brand)	40	90	40
Class 2 and 3 (e.g., Astra, plain)	25	56	25
Class 4 (e.g., Risk, plain)	15	34	25
Papirossy[c]	20	45	25

Source. Based on references 22, 26, 27, 29, 30, 43.
[a]Rates were proposed by British American Tobacco (BAT) in June 1994 and were in place by February 2005.
[b]Class 2 and 3, Class 4, and Papirossy were combined by BAT into 1 category for taxation purposes (i.e., all to be taxed at 25%).
[c]A type of filterless cigarette popular in the former Soviet Union. Papirossy cigarettes had a long, hollow mouthpiece that could be twisted before smoking and were filled approximately one third full with either pure Oriental tobacco or a mixture of tobaccos.

underpinned this request, given his apparent willingness to follow BAT's advice.[51–53]

Equalizing Excise Treatment of Imports and Domestic Production

After the February decree that banned import duties, BAT and its advisers changed their approach from securing import duties to ensuring the equal excise treatment of imports and domestic production.[26,38,55,56,58] It was believed that this strategy would be sufficient to secure BAT's competitive advantage[38,55]:

> If the new level playing field tax regime is properly applied, cigarettes entering Uzbekistan from outside the Commonwealth of Independent States should in any event reach the market at a price disadvantage to locally manufactured cigarettes owing to higher ex-factory prices, transportation costs, etc.[55]

Moreover, the imposition of protective import duties had not been totally abandoned, but just delayed until the market was predominantly supplied by domestic production. Pressing for too many anticompetitive measures was thought to be impractical, and the absence of import duties could, in the short-term, benefit BAT, which was largely reliant on imports until production increased.[38,55]

On May 14, 1994, the share purchase agreement was signed[59,60] and an annex reportedly outlined the tax reforms that were required.[61] The agreement had to be formalized by decree, so BAT pressure continued, mediated largely through Abdoukadirov who, documents suggest, would be able to shape the decree's excise proposals.[43,53]

BAT was sufficiently confident of its ability to push these changes through, so even before the decree was finalized, Neil Bruce-Miller, project leader for Central Asia, reported that "BAT Central Asia has gained government agreement that tax on imports will be the same as on local production."[37] Just 1 week later, on June 20, 1994, the decree was passed and specified that within 1 month the Ministry of Finance and State Tax Committee would submit proposals to the Cabinet of Ministers for an equal taxation regime.[43,59] BAT took this to mean that it had been granted the level playing field for which it had argued.[55] Notes of a meeting BAT held with the Ministry of Finance on June 22 suggest that Abdoukadirov had influenced the wording of the decree.[43]

Although the decree specified that the Ministry of Finance would submit proposals on equal taxation by the July 20th deadline, BAT immediately set about preparing these proposals.[43] By mid-July BAT had developed proposals in both English and Russian "for inclusion in a reply from the Ministry of Finance to the Cabinet of Ministers under the terms . . . of the decree."[62] A series of meetings with the Ministry of Finance on July 13, 14, and 15[63,64] helped to ensure that BAT's proposals[62] shaped the ministry's recommendations to the cabinet and had the desired effect.[65] The documents indicate that by the end of August, equalization of excise and value-added tax on imports and domestic production had been agreed upon and would be in force by September 1.[66] By February 1995, excise on imports was payable,[67] although many imports were escaping taxation.[22]

Simultaneous with BAT's efforts to ensure an equal taxation regime, 3 additional goals from BAT's earlier taxation plans[30,41,42,44] began to receive more emphasis in meetings with Abdoukadirov and his colleague Irina Golysheva,[62–64] head of the Fiscal Policy Unit.[68] These goals were to lower excise rates, revise the excise structure to benefit BAT's brands, and police the excise system (to ensure excise was paid in the country of origin on imports excluded from import taxes and that import duties were paid on the rest).[63–65] As with equalization of the tax regime, throughout negotiations on these issues, the documents suggest a symbiotic relationship between BAT and the Ministry of Finance. The ministry appears to have been reliant on BAT for technical input. BAT's records suggest that Abdoukadirov was "expecting BAT to make full proposals on systems of collection and control of excise."[43] In turn, BAT was reliant on the ministry for political influence because the ministry's proposals to the Cabinet of Ministers would ultimately determine policy.[63–65]

Reducing Excise Rates

Although BAT had recognized that Uzbek excise rates were very low,[27] it had from the outset aimed to lower them.[41] The March 1994 decree raising the rates reignited this desire. Chris Dufty stated in April that "[i]mmediate steps must be taken to ensure that the new rates contained in the Ministry of Finance Decree are not gazetted [sic]."[26] BAT sought to persuade Abdoukadirov that excise rates should be reduced.[43] It suggested 2 instead of the previous 4[27,29] tax categories, reducing the 90% rate to 40% for filter cigarettes and the 34–56% rates to 25% for plain cigarettes (Table 1).[43] Minutes of the June 22 meeting with the Ministry of Finance referred to above note that although "receptive to proposals," Abdoukadirov was unmoved by BAT's call for a reduction in the 90% rate.[43] BAT therefore planned for Dufty to prepare a paper that would demonstrate that the 90% rate would lead to large-scale smuggling, and a lower rate applied equally to all products would both avoid this growth in contraband and still ensure adequate government revenue.[43]

By July 13 it had become apparent that with cabinet approval, the Ministry of Finance could issue orders to repeal the 90% legislation.[63] Alongside its recommendations on an equal tax regime, BAT's tax proposal recommended reducing excise rates, again emphasizing the smuggling argument as justification.[62] BAT's efforts to persuade Abdoukadirov of the need for lower excise rates appears to have paid off, because his proposals to the cabinet, which were submitted by the July 20 deadline, apparently reflected BAT's preferred 40% and 25% rates.[65] Bishop reported that:

> The visit seemingly produced very positive results, in that BAT recommendations were accepted in full. . . . John Selby [Finance Director BAT Central Asia] will follow-up the actual response from the Ministry of Finance next Tuesday (19/7/94). If this is in line with my suggested response then I think we can say that the Ministry of Finance is definitely co-operating with BAT. If approved by the Council of Ministers (so effectively removing the 90% impediment) then for the time being the excise issue should not hinder the deal completion.[63]

By February 1995 the lower excise rates requested by BAT were in place.[22]

Developing Tax Reforms to Benefit British American Tobacco's Brands

Because the government was relying on cigarette excise to provide substantial revenue,

TABLE 2—Tobacco Tax Structures: Definitions

Tax Type	Description
Ad valorem tax: a percentage of the retail price	Tends to widen price differentials by making expensive brands relatively more expensive. Offers governments the advantage that tax is automatically increased with industry price increases. Allows industry the advantage of controlling the tax level by keeping its prices low (industry can lower its prices in response to a tax increase, and prevent any public health benefit). Not generally favored by the large transnational companies that tend to sell expensive brands.
Specific tax: a fixed tax per cigarette	Reduces price differentials by adding a fixed tax to every cigarette regardless of its baseline price; thus, benefits manufacturers of more expensive cigarettes and leads to cheaper brands' possibly being withdrawn from the market. Offers industry the advantage of raising its base price and profit without increasing the tax, and governments the advantage of being able to substantially raise price and tax revenue by a known amount; therefore, generally favored for tobacco control. Specific taxes also are generally favored by the large transnational companies that have expensive brands.
De-minimus tax: a set minimum tax per cigarette	A specific tax set if and only if the ad valorem tax does not reach a set minimum level.

BAT promoted various excise scenarios on the basis of their claimed revenue-earning potential. Documents indicate, however, that such scenarios were actually developed with uppermost consideration given to BAT's marketing and profit needs.[69,70] Selby alluded to the degree of deception involved in such efforts when referring to one of the scenarios in a fax to Bishop dated February 9, 1994:

> This may be difficult to argue as it does not give more revenue and they will smell a rat. I must keep their present confidence that I am trying to be objective in helping them.[70]

On the basis of its marketing and production plans, BAT sought a structure that would benefit its brands at the expense of its competitors.[27,42,71] As outlined above, the 2 main competitive threats were Philip Morris imports from neighboring Kazakhstan, principally the expensive premium brand Marlboro, and cheap imported brands. Thus, the inclusion of an ad valorem (percentage) tax would disadvantage Marlboro by making it more expensive relative to cheaper brands. Similarly, specific or de-minimus (fixed) taxes would cause a significant increase in the price of cheap brands being dumped on the market (Table 2), rendering them less competitive with BAT's brands. BAT pressed for reductions or exemptions for its own products from both forms of excise which, in addition to the equal taxation on imports and domestic products already achieved, would further advantage its domestic production as Selby noted in January 1995:

> 1. The principle is to hit Marlboro by keeping the ad valorem system at around the present level for imports. Naturally I will try for a reduction on domestic rates but I can see the principle of differential tax being applied when they introduce Import Duties as from 1.7.95. . . .
> 2. As so much of the import market is at the bottom end and is already adversely impacting upon our pricing levels we are advocating a 'de-minus' [sic] specific rate to ensure the cheap produce being dumped here is hit. . . . Ideally the minimum would not apply to us. . . .[71]

On February 15, 1995, BAT hurriedly presented its proposals to Abdoukadirov, who had to complete his submission to the cabinet that night.[69] BAT's proposals stressed that low government revenues were attributable to tax evasion on imports (the present system could not be adequately policed) and the high proportion of cheap cigarettes (largely imports) in the market.[22]

BAT's recommendations focused on 4 main areas:[22] first, retaining the BAT-devised ad valorem system of 40% on filtered and 25% on plain cigarettes on the grounds that "higher taxes [would be] received on higher priced cigarettes, particularly the high priced international brands," presumably (although not stated) Marlboro.[22] Second, they proposed adding a minimum tax level on imported cigarettes to both ensure that "acceptable revenues are always received" and "provide some degree of protection to domestic manufacturers from underpricing and dumping."[22] Third, they suggested the introduction of an import duty of between 15% and 25% to provide "further encouragement to all local industries."[22] The fourth recommendation was the introduction of a tax stamp or marker system, from which BAT again sought exemption.

It appears that the effect on prices would directly benefit BAT's planned brand strategy, notably its initial primary focus on the local filterless brand Astra[22,71] and its later introduction of other cheap local brands.[72]

Collecting Taxes on Competitors' Imports

Tax marks, stamps, and banderoles are alternative ways of indicating, through marks on the packet, that tobacco taxes have been paid. Simultaneous with its negotiations on the detailed tax reforms described above, BAT had begun to press for the collection and policing of taxes on imports and suggested systems to ensure that imported cigarettes were taxed.[22,43,62,63] It hoped to use the paper Dufty was producing for Abdoukadirov to suggest that high taxation rates would lead to smuggling (see *Reducing excise rates* above) to push this agenda[43]:

> The note will also stress the vital importance to both Government revenue and the commercial viability of Tashkent tobacco factory of the vigorous policing of tax collection on imports. The concept of practical application of control procedures is giving M. of F. [Ministry of Finance] most difficulties at this time and our assistance is actively sought.[43]

BAT's response to this request for assistance again incorporated proposals to its own commercial advantage.[22] It wanted to be excluded from the controls for the first 12 to 18 months, during which time BAT would be largely reliant on imports. Given BAT's established use of smuggling as a market entry

strategy[13,73] in Uzbekistan and elsewhere, such an exclusion could also have served to facilitate BAT's contraband trade.

Once BAT had commenced manufacturing international brands locally, however, it would want these brands to be subject to the tax markers to prevent local consumers from recognizing the difference between domestically produced and imported brands, because American or European imports were perceived more favorably:[39]

> As excise tax on locally produced cigarettes would be unchanged it is arguable whether tax stamps are needed at all for the domestic manufacturer. . . . In the longer term when production of international brands commences locally it would not be desirable for such brands to be differentiated from the same brands produced overseas. However, in the short term the domestic manufacturer has only just started to refurbish it's [sic] Tashkent factory. The application of tax stamps to packets requires the necessary equipment which is being planned. . . . A period of 12 to 18 months would therefore be required before stamps could be applied to locally produced cigarettes.[22]

One month later, John Selby reported that BAT was given exactly what it had been aiming for on both the policing and new excise systems:

> Irena Golyshava has called to say that the President has given his verbal agreement to a banderole system [a hand written note says "I think they mean a tax marker system!"]. I believe this to be only the first step as Bahkrom Ibragimov (Customs Head) has been told to start up the various committees for implementation. Naturally I am making myself available to give further advice. . . . Incidentally I believe the trip paid other dividends. We have been able to completely reorganise the calculation and payment of taxes exactly as we wanted.[74]

BAT's subsequent corporate social responsibility report on Uzbekistan indicates that tax stamps were introduced in 1996[75] and external sources confirm that duty stamps are now in place.[76,77] Moreover, as BAT had desired,[22] licensing is now required for import and export, as well as wholesale and retail distribution.[76]

Update

The price of cigarettes in Uzbekistan is now the lowest of all countries in the World Health Organization's Europe region, including those with which it is economically comparable. The retail price of the most popular or cheapest local brand of cigarettes in Uzbekistan is $0.01 for 20 cigarettes. The next lowest price, in Russia, is ten times higher at $0.1, or three times higher when compared on purchasing power parity.[76] Given the marked disparity between the excise rates BAT successfully imposed and the World Bank–recommended rates of two thirds to four fifths of the retail price of cigarettes,[9] such low prices are not surprising and must, along with the marked increases in advertising,[11,72] have underpinned the reported increases in cigarette consumption[78] and sales.[67]

DISCUSSION

BAT thoroughly redesigned Uzbekistan's tobacco taxation system to advance corporate objectives. BAT's major investment in the Uzbek economy, combined with its use of high-level contacts, exploitation of the lack of local expertise, and use of half truths enabled BAT to secure key objectives. Such successes included the introduction of excise and value-added tax on imports, a significant (approximately 50%) reduction in excise on cigarettes, the design of an excise system to benefit its brands and disadvantage those of its competitors, and the introduction of a tax stamp system that disadvantaged its competitors. The only one of its original goals not achieved by 1995, when these documents end, was the introduction of import duties (although BAT was still hopeful that this would occur). As one of the first papers to explore TTC influence in a low-income country, we note the remarkable extent to which a single transnational corporation was able to influence public policy.

The changes to tax policy all occurred in the context of privatization of the state-owned monopoly and BAT's investment, which gave BAT both the incentive and economic leverage to influence policy. Our findings suggest that TTC investment can jeopardize the chances of implementing an appropriate excise regime, which is essential to counter the predicted price fall of privatization and its negative effects on public health. Our findings also suggest that the implementation of effective tobacco control policies, including increases in excise, needs to occur before privatization if it is to have any chance of success.

Other evidence supports our contention that both privatization and TTC investment are likely to undermine tobacco control. We have previously established that BAT overturned effective tobacco control legislation in Uzbekistan and sought to influence advertising policy when planning to invest elsewhere.[11] Further documents suggest that wherever in the former Soviet Union it sought to acquire state-owned factories that were being privatized, BAT aimed to influence tax policy. In Ukraine, where BAT successfully acquired the Prilucky tobacco factory,[79–82] it lobbied for lower cigarette taxes[82] and other changes to the structure of cigarette taxation,[80–82] despite admitting that cigarettes were "extremely cheap."[81] Marked reductions in excise rates during the period 1993 to 1995 suggest BAT was successful and, predictably, resulted in a significant fall in state revenues.[83] In Belarus, where BAT made a concerted but unsuccessful attempt to establish a joint venture, a key investment condition was the implementation of favorable tax systems.[84] When interested in acquiring the Bishkek tobacco factory in Kyrgyzstan, BAT's investment conditions included a reduction in excise on domestically produced cigarettes, combined with other changes to the tax system that would protect its position.[85–91]

Further evidence, including claims that the Baltic governments contravened promises of favorable taxation rates and document-based evidence from Hungary, suggests that BAT is not the only tobacco corporation that expects excise concessions when investing.[1,92–95] Four other tobacco transnational companies, Philip Morris International, Japan Tobacco International, Imperial Tobacco Group, and Gallaher Limited, are among the many major commercial sponsors of the International Tax and Investment Center (ITIC, http://www.iticnet.org). This claims to be an independent nonprofit research and education foundation on tax and investment policy in the former Soviet Union. Yet all 3 reports concerning cigarette taxation listed on its Web site present a markedly one-sided viewpoint.

Given the International Monetary Fund's global promotion of privatization on the basis of its proclaimed economic benefits, it is important to note that our findings suggest that the opposite may occur: as a result of BAT's

dedicated lobbying, excise rates were reduced. Government revenues will have been further depleted through smuggling[13,32] and the numerous other fiscal privileges and exemptions BAT negotiated.[2] For similar reasons, our findings are also important given BAT's efforts to encourage governments to accept its investment by alleging that this would increase excise revenues.[21]

Our findings suggest that privatization and TTC investment are antithetical to the implementation of effective tobacco excise policies. Combined with a growing body of evidence for the failure of tobacco industry privatization to secure its expected benefits and its potential for serious negative consequences for public health,[1,2,4–6,11] we believe this research underlines the urgent need for the International Monetary Fund to review its approach to tobacco industry privatization. It should commission a full evaluation of the short- and long-term health and economic effects of privatization that takes into account the wider economic impacts of tobacco use.[9] Because of the negative impacts of tobacco industry privatization documented thus far, it would appear inappropriate to privatize state-owned tobacco industries until such work is complete. However, if tobacco industry privatization is to occur, a number of steps should be taken to minimize the likely consequences for public health. These should include conducting a health impact assessment of the proposed privatization to identify danger points and mitigate their effect, ensuring that privatization is preceded by effective tobacco control legislation, including effective excise policies and controls on smuggling, and basing such legislation on the advice of independent tobacco control experts rather than TTCs or their agents. Privatization deals should be conducted openly to prevent associated deals that compromise public health and should include agreements that prevent the TTCs from rolling back legislation that has already been put in place.

Finally, the negative public health effects of tobacco industry privatization outlined here and elsewhere,[1,2,5,6,11] and attributable in large part to the change from a state-owned to a privately-owned supplier, underline the need for a supply-side approach to tobacco control and for serious consideration of alternatives to industry privatization. Our evidence that BAT redesigned tobacco taxation and overturned other effective tobacco control legislation in Uzbekistan[11] illustrates the argument made by Callard and colleagues that private tobacco corporations will always try to defeat, weaken, and violate tobacco control measures in their drive for profit. Recent suggestions of novel and alternative ways of supplying tobacco therefore warrant further consideration.[96–98] The imposition of a public health mandate on a state-run tobacco industry could, for example, provide a useful alternative to privatization.[96,97] ■

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This article was accepted February 14, 2006.

Contributors

A. Gilmore developed the concept for this paper; conducted the background work, document searching, indexing, analysis, and interviews; and drafted and revised the article. J. Collin and J. Townsend assisted with document searching and drafting and revising the article.

Acknowledgments

This research was supported by the National Cancer Institute, US National Institutes of Health, (grant R01 CA91021–01) The authors also received funding from the Wellcome Trust, Health Canada, and Cancer Research UK for the creation of the BAT Document Archive.

We thank Yuri Loshmanov for helping with interviews in Russian and for those who were willing to talk to us despite the obvious risks. We also thank Nadja Doyle, Melanie Batty, and Ela Gohil for administrative help.

Human Participant Protection

No protocol approval was required for this study.

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